STATEMENT of CONRAD EGAN

PRESIDENT, NATIONAL HOUSING CONFERENCE

TO THE

HOUSE GOVERNMENT REFORM SUBCOMMITTEE on FEDERALISM and the CENSUS

FEBRUARY 15, 2006

Thank you for the opportunity to present today, principally as the former Executive Director of the Congressionally chartered Millennial Housing Commission (MHC).

In the report the MHC presented to Congress in May, 2002, there are two major recommendations to improve Public Housing and Housing Choice Voucher Programs, which are summarized below:

"Transform the public housing program.

Public housing agencies (PHAs) are encumbered by federal regulations that undermine local decision-making authority and make it difficult for PHAs to provide quality housing to low-income families. For example, the centralized system of public housing funding—wherein funds flow to PHAs as a whole and not to individual properties—makes it difficult for PHAs to finance needed capital improvements through the private markets. Meanwhile, federal funding for such activities has fallen short by approximately $20 billion to date. To transform the program, the MHC recommends a gradual transition to a project-based approach, with subsidies flowing to specific properties based on the rents that units would command after any needed renovation. This transformation would enable PHAs to rehabilitate properties using funds borrowed in private markets. If feasible, obsolete properties could be repositioned using the HOPE VI program. The recommendation also addresses troubled agencies, the program's overly complicated rent structure, and the disproportionate regulatory burden on small PHAs."

"Expand and strengthen the housing choice voucher program.

The voucher program serves 1.6 million households and is for the most part highly successful. In some markets, however, program administration and regulatory complexity create an effective disincentive for private owners to accept voucher-holding tenants, especially when owners can instead rent to unsubsidized tenants. The Commission recommends increased authority for local program administrators to change payment standards in response to market conditions, and, recognizing the versatility of the program, it proposes measures to match voucher holders with services that complement efforts to embrace employment and other opportunities. Additional recommendations strengthen and enforce the requirement that owners of housing produced with federal assistance accept voucher-holding households—including extremely low-income households, for whom the Commission recommends a special type of voucher—in all cases subject to a local cap to encourage deconcentration of poverty. Finally, the Commission asserts that the voucher program is distinctly worthy of additional funding in substantial annual increments."

In the remainder of my statement let me focus on the first recommendation where the MHC recommended the application of private real estate principles, specifically:

"Over time, public housing's physical inventory and population would shift to the project-based Section 8 model. This entails converting operating and capital funding to a long-term Section 8-type contract linked to each public housing property rather than to a PHA, as is currently done.

The contract would provide reliable funding to cover operating costs including asset and property management costs, debt service on loans for capital costs, replacement reserves, and debt service insurance. Subsidy levels would be based on each property's market rent. To be eligible for such a contract, the PHA would pledge to retain some specified income targets for the property."

"A more comprehensive approach is recommended for severely distressed properties in order to preserve the housing and neighborhood, as well as to restore dignity to current residents. A severely distressed property generally has multiple physical and social problems. The physical problems include age (some properties are more than 50 years old), inadequate or failing infrastructure, extremely small and inadequate rooms, and other design deficiencies. Compounding the physical deterioration of these severely distressed properties is the social pathology characteristic of high-poverty neighborhoods that is often manifested by poor school performance, low education levels, high crime rates, high unemployment rates, and longer average tenancy. Given the blighting effect of these large, severely distressed properties, most of the neighborhoods in which they are located have suffered from decades of disinvestment.

The HOPE VI program must be maintained as both a preservation and production tool. In addressing severely distressed properties, HOPE VI must be the first money in, because the private sector does not have the resources to address the predevelopment costs to acquire a buildable site. Under current regulations, HOPE VI funding pays only for public housing-related costs (including the relocation, demolition, site remediation, and construction costs for public housing-assisted apartments) and leverages non-public housing funds to pay for the non-public housing costs. The latter costs make up the larger share of development budgets."

“To complete the transition to this new public housing model, capital improvements would be financed through loans secured by a mortgage, which could be backed by FHA mortgage insurance. No additional guarantees should be necessary for the majority of public housing properties, whose market rents would fully support the debt service to bring the property to acceptable quality standards. Likely lenders would include commercial and mortgage bankers and, in some states, housing finance agencies. Credit enhancers would include FHA and the GSEs.

While some public housing properties need no new capital investment, others are in such poor condition or are so poorly located that they do not warrant additional investment. These properties are good candidates for demolition and replacement with vouchers or hard units, depending on input from community stakeholders, including public housing residents, as well as analysis of local markets and housing conditions.

A debt financing strategy has several merits. The long-term costs of this capital improvement approach would likely be lower than the current approach. An added benefit is that improvements can occur quickly, before properties deteriorate further. Finally, debt financing provides another level of operational oversight from lenders, thus substituting standard real estate practice for HUD oversight and regulations.

Debt financing is not, however, appropriate in all cases. For small properties, the ratio of transaction costs to overall debt makes this type of financing impractical. A more suitable approach for these properties would be to use existing capital grant programs or to front-load direct grants.

For properties whose capital needs require rents substantially above market-based levels or Section 8 fair market rents, the alternatives include:

- Using the HOPE VI program to revitalize properties that are well located but in poor condition
or otherwise obsolete, and

- Granting PHAs full access to all housing development vehicles including debt financing and tax credits, as well as new loan and grant programs."

The Millennial Housing Commission's basic recommendation in this area is that the Public Housing program must be permitted and encouraged to utilize the private sector's financial resources by converting the developments to a property based model, like the rest of the world of real estate.